

EXHIBIT C

[PUBLIC VERSION]

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Page 1

1 IN THE UNITED STATES DISTRICT COURT

2 FOR THE DISTRICT OF WYOMING

3

4 CUSTODIA BANK, INC.,

5 Plaintiff

6 vs.

No.

7 FEDERAL RESERVE BOARD OF

22-cv-00125-SWS

8 GOVERNORS and FEDERAL RESERVE

9 BANK OF KANSAS CITY,

10 Defendant.

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CONFIDENTIAL DEPOSITION OF JUDITH HAZEN,
16 FRBKC Representative, a Defendant, taken on behalf of
17 the Plaintiff before Kelsey Robbins Schmalz, CSR No.
18 1571, CCR No. 1148, RPR, pursuant to Notice on the
19 16th of November, 2023, at the offices of the Federal
20 Reserve Bank of Kansas City, 1 Memorial Drive, Kansas
21 City, Missouri.

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1 generally about his involvement in conversations with
2 the State of Wyoming about the SPDI draft litigation?

3 A. So he provided me information on
4 conversations that were happening predating my
5 involvement with the legislation and with the
6 entities, and that included an overview of our -- of
7 conversations between the Federal Reserve Bank staff
8 and the State of Wyoming during that time.

9 Q. And what is the time period that he
10 was referencing with you? Or let me ask it a
11 different way.

12 What is the time period that the
13 Kansas City Fed was engaged in conversations with
14 representatives of the State of Wyoming in connection
15 with the draft SPDI legislation?

16 A. So conversations with the Kansas City
17 Fed would go back to 2017 or 2018. Conversations
18 that I covered with Nick I believe were occurring in
19 the 2019 time frame.

20 Q. Okay. And did Nick have perspective
21 or knowledge about conversations that would have
22 occurred with the State of Wyoming representatives in
23 2017 or 2018?

24 MS. CARLETTA: Objection. Form.

25 A. So Nick Billman would have been

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1 BY MR. SCARBOROUGH:

2 Q. Were representations made by Kansas
3 City Fed officers that if Wyoming SPDI charters
4 entities applied they would be given access to the
5 Federal Reserve payment system?

6 MS. CARLETTA: Objection. Form.

7 A. I'm not aware of a conversation that
8 SPDI entities would have master accounts made
9 available to them.

10 BY MR. SCARBOROUGH:

11 Q. When you mentioned a moment ago that
12 there are ways to access the Federal Reserve payment
13 system other than through a master account, the
14 testimony that we've heard from various
15 representatives or various employees of the Kansas
16 City Fed is that the only other way to access it is
17 through a correspondent banking relationship?

18 Is that correct, first of all? Is
19 that the Kansas City Fed's understanding that the
20 only two ways to access the Federal Reserve payment
21 system are through a master account or through a
22 correspondent banking relationship?

23 MS. CARLETTA: Objection. Form.

24 Misstates testimony.

25 A. So the only two are not that, but yes,

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1 often you will see an institution that has access to
2 services and maintains an account with the Reserve
3 Bank and settles directly within that account. You
4 also have institutions that have direct access to
5 services and choose to settle in another
6 institution's master account. That is what I would
7 think of as a correspondent/respondent relationship.

8 There are also other ways you can
9 access the banking system, though, and that would be
10 as a commercial customer of another bank that
11 maintains access to services, either through their
12 own master account or a correspondent relationship,
13 and so to have direct access, the two most common
14 ways would be through your own master account or by
15 settling in a correspondent account, but they're not
16 the only ways to access.

17 Q. If you don't have your own master
18 account and you have to go through a correspondent
19 relationship or a commercial banking relationship to
20 get access, does that, first of all, interject
21 additional time into the process before transactions
22 can settle?

23 MS. CARLETTA: Objection. Form.

24 A. I can't answer the specifics on how
25 all of the mechanics could work for all of the

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1 iterations of those, but it could.

2 BY MR. SCARBOROUGH:

3 Q. And could it also inject additional
4 cost to the entity seeking to access the Federal
5 Reserve payment system?

6 MS. CARLETTA: Same objection.

7 A. I would expect that any entity
8 providing services is going to charge for that.

9 BY MR. SCARBOROUGH:

10 Q. Okay. And if an entity had its own
11 master account, it would not face those same timing
12 issues and it would not face those same cost issues;
13 is that fair?

14 MS. CARLETTA: Objection. Form.

15 A. If the question is if an entity
16 maintains its own master account does it not need to
17 pay a fee to another entity for using its services or
18 whatever fees that a commercial bank may choose to
19 charge its customers, that would be accurate, but
20 there are other expenses that might be incurred, so
21 there is still an expense relative to maintaining a
22 master account.

23 MR. SCARBOROUGH: Okay. We've been
24 going a while. I haven't finished this document yet,
25 but why don't we take a break and then we can pick

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1 George or meetings that we would have attended, but I
2 can't cite like where they were at in the deposition.

3 Q. That's fine. Based on what you
4 reviewed -- and, again, I'm speaking to you in your
5 capacity as the Kansas City Fed representative.

6 A. Yes.

7 Q. Was there any testimony that Tara
8 Humston gave that the Kansas City Fed would disavow?

9 A. No.

10 Q. And was there any testimony that she
11 gave that the Kansas City Fed would disagree with?

12 A. No.

13 Q. Okay. Thank you for those
14 clarifications.

15 I just wanted to return to Exhibit 226
16 so that we could finish up with that. That's the
17 talking points that were prepared by some combination
18 of Veronica Sellers, Kevin Moore and Ryan Harwell,
19 correct?

20 A. I believe also Nick Billman.

21 Q. Correct. Thank you for pointing that
22 out. So we talked before about section 248a and the
23 desire of the Kansas City Fed officers to have that
24 reference -- or those references removed from the
25 draft legislation. Do you know whether references to

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1 248a were removed from the final legislation?

2 MS. CARLETTA: Objection. Form.

3 A. Chris Land agreed to remove the
4 specific references to that section.

5 BY MR. SCARBOROUGH:

6 Q. And that's reflected in the email
7 Exhibit 227 --

8 A. Correct.

9 Q. -- that Nick Billman sent summarizing
10 his call with Chris Land on December 12th, 2018?

11 A. The email is dated December 12th,
12 2018. The conversation may not have been that day.

13 Q. Yeah, you're right. It looks like if
14 you read the first line of the email it's a little
15 faint, but it says that he wanted to follow up on his
16 call with Chris Land last Friday afternoon, and this
17 email was sent on December 12th, Wednesday, so if I'm
18 doing my math correctly, that would put this back at
19 December 7th, Friday; is that right?

20 A. I believe that's accurate.

21 Q. The other concern that was reflected
22 in the key issues at the top was that the Kansas City
23 Fed wanted Wyoming to remove the requirement for the
24 attorney general of the State of Wyoming to sue the
25 Federal Reserve Bank on behalf of a private entity if

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1 it was denied a master account?

2 MS. CARLETTA: Objection. Form.

3 Sorry.

4 BY MR. SCARBOROUGH:

5 Q. Did Wyoming make changes to its
6 legislation to address that concern?

7 MS. CARLETTA: Objection. Form.

8 A. So I see the reference that the Kansas
9 City Fed suggested removing that, and it was reported
10 to Kevin Moore and Ryan Harwell by Albert that the
11 State had struck the language that required the state
12 attorney general to sue the Fed for reasons that had
13 been cited in the talking points when the State
14 realized it could not take legal actions against the
15 Fed on behalf of private citizens.

16 BY MR. SCARBOROUGH:

17 Q. And are you reading from Exhibit 227,
18 the December 5th, 2018, email summary from Kevin
19 Moore?

20 A. I am.

21 Q. That same email, the following
22 paragraph references that fact that Albert -- and
23 this is a reference to Albert Forkner, correct?

24 A. Yes, Albert Forkner.

25 Q. Also knows there's sensitivity to

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1 A. That is what this says.

2 Q. Was the issue around member status
3 raised because the Reserve Bank did not control
4 whether a special purpose depository institution
5 would be granted membership?

6 MS. CARLETTA: Objection. Form and
7 outside the scope.

8 A. Concerns about membership status and
9 Federal Reserve services are raised because they're
10 not within the purview of the state to determine, and
11 so there's concern in the legislature implying or
12 conveying that.

13 BY MR. SCARBOROUGH:

14 Q. I see. And did Chris Land confirm in
15 his conversation with anybody that occurred I believe
16 on December 17th, 2018, that, in fact, the language
17 that had been discussed about a mandatory lawsuit
18 provision was ultimately removed from the SPDI
19 legislation?

20 MS. CARLETTA: Objection. Form.

21 A. I'll need just a moment to read it to
22 see if that's in here.

23 BY MR. SCARBOROUGH:

24 Q. I believe it's reflected in the second
25 sentence at the top of the email?

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1 A. Yes. The one that I can't read with
2 the highlighting.

3 Q. Yeah. I believe it says -- I have a
4 clearer version on my screen that says, Chris
5 confirmed what Kevin and Ryan heard from Jeff and
6 Albert below about the mandatory lawsuit provision
7 being removed.

8 Did I read that accurately?

9 A. You did read that accurately.

10 BY MR. SCARBOROUGH:

11 Q. Now, in looking through the talking
12 points, and those talking points are I think four
13 pages long; is that right?

14 A. Yes.

15 Q. There are -- in addition to the two
16 key issues that were identified and we've already
17 discussed, it appears that there were other
18 observations that the Kansas City Fed officers shared
19 with the Wyoming representatives about the draft
20 legislation; is that fair?

21 A. So referencing the talking points
22 document, I think this is information that was
23 developed internally. What was conveyed in
24 conversations may not have included all of these, but
25 I would rely on the communications that are outlined

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1 the forefront and ultimately resulted in creating the
2 novel account -- or the account access steering
3 committee is what's defined on this page.

4 BY MR. SCARBOROUGH:

5 Q. Gotcha. And on the nontraditional
6 account access group -- work group, am I
7 understanding it correctly that there was both a
8 steering committee as well as two different
9 workstreams, a practical workstream and a policy
10 workstream?

11 MS. CARLETTA: Objection. Form.

12 A. So as outlined here, yes. There was a
13 group put together that constituted what became the
14 nontraditional account access steering committee, and
15 under that there were groups that were focusing on
16 looking at broader policy -- that was dubbed the
17 policy workstream and one that was dubbed the
18 practical workstream.

19 MR. SCARBOROUGH: Can you mark that as
20 Exhibit 233.

21 (FRB Exhibit No. 233 was marked for
22 identification by the reporter.)

23 BY MR. SCARBOROUGH:

24 Q. I'm going to hand you a document
25 that's been marked as Exhibit 233, which is simply a

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1 form because I want to create a list, and I don't
2 know if you have a pen, but I have a fancy one from
3 the Federal Reserve Bank of Kansas City if you would
4 like to use it.

5 A. I hear they're in high demand.

6 Q. Yes. What I would like to do as we go
7 through is to sort of keep a running list of
8 individuals who were involved in dealing with
9 nontraditional accounts like SPDIs or Custodia
10 specifically, okay?

11 MS. CARLETTA: And I'll just note for
12 the record I think we're talking about Topic No. 2;
13 is that right?

14 MR. SCARBOROUGH: I don't have it in
15 front of me, but let me look real quick.

16 MS. CARLETTA: Assuming we're talking
17 about Topic No. 2, we said that would produce a
18 witness to discuss generally the positions and
19 identities of individuals at the Board who had
20 substantive discussions with FRBKC employees about
21 Custodia's master account request.

22 MR. SCARBOROUGH: Yeah. This is not
23 just limited to Topic 2. It also encompasses
24 Topic 6, for instance, which deals with the various
25 working groups and PSPAC and et cetera that was

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1 I'm writing it correctly.

2 MS. CARLETTA: You can write it down
3 as you go. I don't know what she's going to be able
4 to verify. It's not clear from the face of that
5 document what we're doing here. You can ask the
6 question and she can answer it.

7 A. Can you repeat the question?

8 BY MR. SCARBOROUGH:

9 Q. Sure. Am I correct that you
10 previously have testified today that the Payment
11 Systems Policy Advisory Committee was involved in
12 addressing issues that were raised by novel chartered
13 entities, first of all?

14 MS. CARLETTA: Objection. Form.

15 A. So the PSPAC was one of the groups
16 that was aware of and interested in the issues that
17 were being raised by new charter types, by novel
18 business plans, by novel uses of existing charters.

19 BY MR. SCARBOROUGH:

20 Q. And the PSPAC did not include every
21 member of -- every Governor on the Board, correct?

22 A. A subset of Governors sitting on the
23 PSPAC.

24 Q. So I'm going to write PSPAC, subset of
25 Governors on No. 1, okay?

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1 A. Okay.

2 MS. CARLETTA: Okay. You're writing
3 it down.

4 A. I see you writing it down.

5 BY MR. SCARBOROUGH:

6 Q. Does that capture the participants
7 from the Board at the PSPAC level who had anything to
8 do with nontraditional account access issues raised
9 by novel chartered entities?

10 MS. CARLETTA: She is standing on her
11 deposition testimony. She is not verifying this
12 document.

13 A. So yes. The representation on PSPAC
14 from the Board of Governors includes a subset of
15 Governors, but the PSPAC is broader than the
16 substance set of Governors, it also inside a subset
17 of Reserve Bank presidents.

18 BY MR. SCARBOROUGH:

19 Q. Right, and I'm only looking to catch
20 the folks from the Board who were involved, so that's
21 why I've written subset of Governors and didn't say
22 anything more about Reserve Bank personnel, okay?

23 MS. CARLETTA: It doesn't matter what
24 you've written. It's attorney work product. We're
25 standing on her -- she is not verifying that document

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1 the PSPAC level in connection with considerations
2 raised by nontraditional accounts like SPDIs or
3 others?

4 MS. CARLETTA: Same objections.

5 A. It represents the membership on PSPAC
6 at the Board of Governors.

7 BY MR. SCARBOROUGH:

8 Q. Okay. So let me direct your
9 attention, then, to Exhibit 202, which you have you
10 in front of you. You mentioned that there was a
11 steering committee, correct?

12 A. Yes.

13 Q. And this is a steering committee for
14 the nontraditional account access groups, correct?

15 A. Yes. That's what the group was
16 titled.

17 Q. Okay. So who served on the steering
18 committee at the board level?

19 A. On this document, it notes David
20 Mills.

21 Q. Okay. I'm going to write these down
22 as you go. So David Mills, and what was his role?

23 A. He is a co-chair.

24 Q. And what position did he have at the
25 Board?

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1 A. I would have to look up his specific
2 title for you.

3 Q. Does it indicate on Exhibit 202 that
4 he was with RBOPS?

5 A. He worked in the RBOPS division.

6 Q. And does that stand for Reserve Bank
7 Operations and Payment Services?

8 A. I believe so. I'm not sure if the S
9 is services or system.

10 Q. Let me see if I can find the answer
11 for you quickly. I have it down as Reserve Bank
12 Operations and Payment Systems. Do you have any
13 reason to disagree with that?

14 A. No. I can confirm it during the break
15 if you want me to, but that seems reasonable.

16 Q. And so do you see here that I've
17 written down on No. 2 David Mills, RBOPS?

18 A. I see that.

19 Q. Okay. And that's written on
20 Exhibit 233. So who's the next member from the Board
21 who served on the steering committee?

22 A. This notes Jeff Walker.

23 Q. Jeff Walker. And was Jeff Walker also
24 with RBOPS?

25 A. That's what noted on the paper.

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1 Q. And I've written that down as No. 3,
2 correct?

3 A. Yes.

4 Q. The next person that's listed on the
5 steering committee from the Board is Stephanie
6 Martin; is that right?

7 A. Yes. That's the next name from the
8 Board on the list.

9 Q. And she's with Board legal; is that
10 fair?

11 A. That's what it says.

12 Q. So I've written Stephanie Martin,
13 legal, as No. 4, correct?

14 A. Okay.

15 Q. And then the next person that's listed
16 is Kavita Jain. Is she also with the Board?

17 A. She is.

18 Q. And she served on the nontraditional
19 account access steering committee?

20 A. That's what's noted here.

21 Q. And she is with the board S&R. What
22 does S&R stand for?

23 A. Supervision and regulation.

24 Q. So I've written as No. 5 Kavita's name
25 and her role as Board S&R, right?

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1 A. Yes. Or just S&R, but yes.

2 Q. Then we have Marnie DeBoer. Does
3 she -- have you also seen her name as Margaret
4 DeBoer?

5 A. Yes.

6 Q. And is she also a staff member for the
7 Board of Governors?

8 A. She is.

9 Q. So I'm going to write down Marnie
10 DeBoer, and it indicates that she was in the Board
11 M&A; is that right?

12 A. Board MA, yes.

13 Q. Pardon me. MA.

14 And so I've written her name, Marnie
15 DeBoer, MA there, correct?

16 A. Correct.

17 Q. And then if I look down, the next
18 Board person that I see is Jennifer Lucier. Am I
19 getting that right; do you know?

20 A. I see the name. I don't know the
21 pronunciation.

22 Q. And Jennifer Louis, it indicates here,
23 was also with RBOPS at the Board?

24 A. That's on the paper, yes.

25 Q. So I've marked that as No. 7 for her

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1 name, correct?

2 A. I see that on that page.

3 Q. Okay. Now, in addition to the
4 steering committee, if you look further down on this
5 document on the practical workstream, there are other
6 members of the Board who are also participating,
7 correct?

8 MS. CARLETTA: Objection. Form.

9 A. I see on the list under practical
10 workstream a list of Board staff.

11 BY MR. SCARBOROUGH:

12 Q. Okay. One of the co-chairs for the
13 practical workstream was a Board member, correct?

14 A. This indicates Kathy Wilson.

15 Q. And Kathy Wilson, it indicates she is
16 also with RBOPS?

17 A. Yes. That's in parentheses.

18 Q. And I've written her name at No. 8,
19 correct?

20 A. I see that.

21 Q. And then there's representatives from
22 Board legal, Gavin Smith; is that right?

23 A. I see that.

24 Q. And I've written his name as No. 9 on
25 this, correct?

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1 A. I see that.

2 Q. There's a reference to MPOA David
3 Lowe, do you know what MPOA is?

4 A. I don't.

5 Q. Do you know who David Lowe is?

6 A. The name is familiar, but I'm -- I
7 don't know the division. I'm sorry.

8 Q. Do you know if he worked for the
9 bank -- for the Board or a Reserve Bank?

10 MS. CARLETTA: Objection. Form.

11 A. I don't. I see that he's listed under
12 Board staff in this document, but I don't know him
13 specifically.

14 BY MR. SCARBOROUGH:

15 Q. All right. So I'm going to put David
16 Lowe down and I'll write MPOA since he's listed under
17 Board staff, okay? Do you see that as No. 10?

18 A. Yeah. I see you wrote the same thing
19 over here that's on this document.

20 Q. Okay. And then the next person listed
21 as Board staff is Dan McGonegal; is that right?

22 A. Yes.

23 Q. And is Mr. McGonegal part of the Board
24 S&R department?

25 A. He is now, yes.

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1 Q. And do you see for No. 11 I've written
2 his name with S&R next to it?

3 A. I see that.

4 Q. Then the next person down it indicates
5 is Ben Hobbs, also with RBOPS; is that right?

6 A. I see that.

7 Q. And I've written his name and
8 indicated that he is with RBOPS, correct?

9 A. I see that.

10 Q. And then if you flip the page to
11 workstream No. 1, the policy workstream, one of the
12 co-chairs of that group is also a Board staffer,
13 correct?

14 A. Yes. On here I see Jason Hinkle.

15 Q. And he is also with RBOPS?

16 A. That's in parentheses, yes.

17 Q. You see him as listed as No. 13?

18 A. Yes.

19 Q. And then under Board staff for this
20 policy workstream, there's a representative from
21 legal. That's Sophia Allison, correct?

22 A. On Board legal it says Sophia Allison.

23 Q. And I'll write legal next to her name.
24 Do you see that?

25 A. I see that.

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1 Q. Okay. And then we have Mary Francis,
2 and I'll never be able to say her last name, but it
3 looks like Styczynski?

4 A. Yes.

5 Q. Is she also with the Board?

6 A. Yes.

7 Q. And her specific role is listed there
8 as also being MPOA, correct?

9 A. Yes. That's the designation on the
10 page.

11 Q. And I've written her in as No. 15,
12 correct?

13 A. Yes.

14 Q. Now, I'm not going to include Dan
15 McGonegle a second time, although he is also on this
16 policy workstream, right?

17 A. Yes, I see his name on here.

18 Q. So the next person we have come to
19 appears to be Kirstin Wells; is that right?

20 A. Yes.

21 Q. Is she also a Board member?

22 A. She is designated here as RBOPS.

23 Q. I've written her name in as No. 16
24 with RBOPS next to it.

25 Do you see that?

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1 A. Okay.

2 MS. CARLETTA: I'll just note that
3 this document also -- next to Kirstin Wells also says
4 parentheses, FOCS. I don't know what that means.

5 BY MR. SCARBOROUGH:

6 Q. Ms. Hazen, are there other
7 Board-related members, so staffers, Governors,
8 anybody from the Board who, to your knowledge are or
9 the Kansas City Fed's knowledge, participated on
10 either the nontraditional account access steering
11 committee, practical workstream 1 or policy
12 workstream 2 other than the folks that we've listed
13 here?

14 MS. CARLETTA: Objection. Form.

15 A. I believe this document is showing
16 those that were engaged at the creation of this, and
17 I don't see any notable names missing.

18 BY MR. SCARBOROUGH:

19 Q. So -- I didn't mean to interrupt you.

20 A. I was just going to say I don't -- I
21 know that there have been changes in membership from
22 the Reserve Bank participation side, and so
23 potentially there's been changes from the Board side
24 but there's no names that I'm surprised not to see on
25 the list.

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1 Q. Now I'm going to hand you a document
2 that was marked previously as Exhibit 218, and this
3 is a document that references crypto asset policy and
4 then it's got a redaction applications.

5 Do you see that?

6 A. I see that.

7 Q. And it also reflects that there is
8 involvement in answering some crypto policy questions
9 that the Kansas City Fed was facing; is that correct?

10 A. The invitation says, This is to
11 discuss some of the crypto policy questions KC is
12 facing as it works through the redacted applications.

13 Q. Are you familiar with Jeff Ernst?

14 A. I am.

15 Q. Is he -- in what ways are you familiar
16 with Mr. Ernst?

17 A. So I've worked with Jeff Ernst through
18 my role in the supervision function and engagement
19 with what we call the system risk council.

20 Q. And does the system risk council, does
21 that address questions that arise in connection with
22 novel chartered entities?

23 A. They do not.

24 Q. Okay. Why is -- go ahead.

25 A. I'm sorry. I just realized when I

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1 said -- I'm sharing with you how I personally know
2 Jeff Ernst. I didn't prepare to be able to speak to
3 all that is -- what it encompasses, so I'm sorry.

4 Q. I understand. Is it fair to say that
5 Mr. Ernst was involved in answering crypto policy
6 questions that the Kansas City Fed was trying to
7 address?

8 MS. CARLETTA: Objection. Form and
9 outside the scope.

10 A. I don't know about Jeff's engagement
11 other than what's noted on this calendar invitation.

12 BY MR. SCARBOROUGH:

13 Q. Okay. And is it -- and he is a Board
14 staff member?

15 A. Yes.

16 Q. And did the SPDI-chartered entities
17 present crypto policy questions that needed to be
18 addressed?

19 A. Broadly, there were crypto policy
20 questions that were being contemplated by the Board
21 and Reserve Bank staff. I can't speak to if this
22 document is referencing specific questions that would
23 have been raised by SPDIs or a specific entity.

24 Q. And I'm less concerned about that
25 particular document than trying to identify

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1 individuals at the Board who would have been involved
2 in addressing policy issues or other questions that
3 would arise in connection with SPDI charters or the
4 like.

5 A. I think what's challenging for me in
6 responding is that there is an evolution that is
7 happening at this time in that industry and then also
8 within the financial industry, and so to be able to
9 pinpoint what questions are being raised because of
10 the SPDI charters and what questions are being raised
11 just as we more broadly monitor what's happening in
12 the financial industry, I'm not prepared to make that
13 delineation.

14 Q. Okay. Let me ask you, did Asad Kudiya
15 have interaction with the Kansas City Fed in
16 connection with SPDI charters or issues around crypto
17 policy novel chartered entity account access?

18 MS. CARLETTA: Objection. Form and
19 outside the scope.

20 A. Asad Kudiya would have been involved
21 in the application for membership by Custodia.

22 BY MR. SCARBOROUGH:

23 Q. Would Asad have had any role in
24 connection with broader crypto policy questions?

25 MS. CARLETTA: Same objections.

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1 A. I'm not certain what all is
2 encompassed in Asad's role.

3 BY MR. SCARBOROUGH:

4 Q. What about Gavin Smith? Strike that.
5 We've already established Gavin Smith's
6 participation.

7 What about Molly Mahar?

8 MS. CARLETTA: Same objection.

9 A. Kavita Jain reports to Molly Mahar.
10 I'm not aware of Molly Mahar's scope of
11 responsibilities or her specific engagement.

12 BY MR. SCARBOROUGH:

13 Q. Okay.

14 A. On activities related to Custodia or
15 requests related to Custodia.

16 Q. In preparing to testify today, did you
17 identify individuals from the Board who participated
18 in providing comments or feedback on the
19 recommendation letter that was prepared for Esther
20 George?

21 A. Yes. I looked at comments that had
22 been provided on our analysis.

23 Q. Okay. Who provided comments from the
24 Board in connection with the recommendation memo to
25 Esther George?

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1 MS. CARLETTA: Objection. Form.

2 A. I'm not certain that I could delineate
3 who specifically provided the comments on the memo
4 itself versus others that provided substantive
5 comments in other forms.

6 BY MR. SCARBOROUGH:

7 Q. Let's just do it broadly. Who
8 provided comments in any way, shape or form from the
9 Board to the Kansas City Fed in connection with the
10 recommendation memo?

11 A. So individuals that --

12 MS. CARLETTA: Objection. Form --

13 A. -- we would have had conversations
14 with at the Board included Sophia Allison.

15 BY MR. SCARBOROUGH:

16 Q. Okay. Let me see here. We've already
17 got her on the list as No. 14 I'll show you. Is that
18 right, No. 14?

19 A. Yes. Your list says Sophia Allison,
20 legal.

21 Q. Who else?

22 A. Lael Brainard.

23 Q. So I'm going to write -- I'll write
24 Lael down although I put an asterisks -- do you know
25 if Lael was on the PSPAC?

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1 A. I believe she was.

2 Q. All right. I'll write Lael's name but
3 I'll put an asterisk beside it on No. 17.

4 MS. CARLETTA: And, I'm sorry, what
5 are we creating -- can you restate the question for
6 this list?

7 BY MR. SCARBOROUGH:

8 Q. So what was Lael Brainard's -- she
9 gave feedback on the recommendation memo?

10 THE WITNESS: Can I answer now?

11 MS. CARLETTA: I just didn't hear the
12 question. That's all.

13 A. Lael Brainard had conversations with
14 Esther George.

15 BY MR. SCARBOROUGH:

16 Q. Okay. And we'll come back to the
17 substance of it, but who else would have given
18 feedback on the recommendation -- the denial
19 recommendation?

20 A. So others that I have include Margaret
21 DeBoer.

22 Q. And we have Marnie DeBoer listed as
23 No. 6?

24 A. I see that.

25 Q. So I'm not going to write her down.

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1 Who else do you have?

2 A. I have Matt Eichner.

3 Q. And was he the head of RBOPS?

4 A. Yes.

5 Q. I'm going to write RBOPS there. Who
6 else besides Matt?

7 A. Jason Hinkle.

8 Q. I've already got Jason written down as
9 No. 13 so I'm not going to rewrite him, okay?

10 A. Okay.

11 Q. Who else?

12 A. Laura Lipscomb.

13 Q. I don't have her, so what was her
14 position or role at the Board?

15 A. I believe that she is in monetary
16 affairs.

17 Q. So MA?

18 A. Yes.

19 Q. I've written her down at No. 19. All
20 right, who else?

21 A. Matt Malloy.

22 Q. And what was his role?

23 A. He is also in monetary affairs.

24 Q. And do you see I've written him down
25 as No. 20?

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1 A. I see that.

2 Q. Okay. Who else?

3 A. Stephanie Martin.

4 Q. I've got her already as No. 4,
5 correct?

6 A. Yes. I see that.

7 Q. And then who else do you have?

8 A. Dave Mills.

9 Q. No. 2 on my list?

10 A. Yes.

11 Q. And who else?

12 A. Gavin Smith.

13 Q. He's No. 9 on my list. Who else do
14 you have?

15 A. Mark Van Der Weide.

16 Q. Write him down, mark Van Der Weide,
17 and he is legal, correct?

18 A. He's general counsel.

19 Q. So I'll write GC as No. 21.

20 A. Okay.

21 MS. CARLETTA: Just for the record,
22 she is reading from Tab 10 of Exhibit 225.

23 BY MR. SCARBOROUGH:

24 Q. Who else do you have?

25 A. Jeff Walker.

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1 Q. He's No. 3, correct?

2 A. Yes.

3 Q. Who else?

4 A. Evan Winerman.

5 Q. I'll write his name down. What was
6 Evan's role?

7 A. I believe Evan is in legal.

8 Q. At the Board?

9 A. Yes.

10 Q. So do you see I've written him down as
11 No. 22?

12 A. Yes.

13 Q. Is that the complete list that you've
14 been able to compile of individuals who had
15 involvement in giving feedback in one way or another
16 to the denial recommendation?

17 A. I would say that these are the
18 individuals that were involved in substantive
19 conversations around Custodia's master account
20 request from the Board of Governors.

21 Q. Okay. Does the Kansas City Fed have
22 any knowledge or awareness of briefings that were
23 provided to Vice Chair Barr in connection with
24 Custodia -- both its membership application and its
25 master account request?

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1 issues raised by novel chartered entities like SPDIs
2 and the like?

3 MS. CARLETTA: Objection. Form and
4 outside the scope.

5 BY MR. SCARBOROUGH:

6 Q. And I'll hand you Exhibit 233 so you
7 have that in front of you, but is there anybody
8 that's not reflected on that list so far?

9 MS. CARLETTA: Same objections.

10 A. So to the latter part of your
11 question, there were conversations broadly that
12 were happening around evolution in the financial
13 industry, so this would not be an inclusive list of
14 all conversation that is have happened across the
15 Federal Reserve System in regard to individuals
16 that you've identified that are on emails, yes, I
17 see that we've pulled out the names that are relevant
18 from the Board, and then it's also inclusive of the
19 list that I had identified of individuals that the
20 Reserve Bank had substantive discussions regarding
21 Custodia.

22 I don't have a full list of everyone
23 that's been engaged in watching the evolution of the
24 financial system for the last four years for this
25 discussion today.

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1 BY MR. SCARBOROUGH:

2 Q. And if we were to include that, that
3 would include people like Jeff Ernst, for instance?

4 MS. CARLETTA: Objection. Form.

5 Outside the scope.

6 A. Among others, yes.

7 MR. SCARBOROUGH: Why don't we go
8 ahead and take our lunch break, and then we can pick
9 up afterwards.

10 (Off the record from 12:37 to 1:20.)

11 BY MR. SCARBOROUGH:

12 Q. All right. We are back after lunch.
13 When we were talking earlier about the interactions
14 that occurred between Board staff or Board Governors
15 and representatives of the Kansas City Fed in
16 connection with the recommendation to deny Custodia a
17 master account, you mentioned that there were
18 substantive discussions with Lael Brainard.

19 Do you remember that?

20 A. Yes.

21 Q. Can you on behalf of the Kansas City
22 Fed describe what those discussions were with
23 Vice Chair Brainard?

24 MS. CARLETTA: Objection. Form.

25 A. So discussions regarding Custodia's

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1 master account request would have occurred between
2 Vice Chair Brainard and President Esther George.

3 BY MR. SCARBOROUGH:

4 Q. Can you tell me about the substance of
5 those discussions?

6 A. I believe according to President
7 George's testimony that there were discussions around
8 legal eligibility.

9 Q. Is the sum and substance of your
10 knowledge to testify about discussions that occurred
11 with Vice Chair Brainard what Esther George testified
12 to in her deposition?

13 A. Yes.

14 Q. Are you aware of any other sources of
15 information or knowledge beyond Esther George's
16 testimony that would address the substance of any
17 communications involving Vice Chair Brainard?

18 A. No.

19 Q. Are you aware of any documents that
20 have been prepared to summarize communications from
21 Vice Chair Brainard concerning Custodia's master
22 account request?

23 MS. CARLETTA: Objection. Form.

24 A. So I think the direct or the firsthand
25 account of the conversations between Esther George

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1 A. I can't speak to the activities of
2 other institutions.

3 BY MR. SCARBOROUGH:

4 Q. The Kansas City Fed has
5 information-sharing agreements with other Reserve
6 Banks as well as the Board of Governors, correct?

7 MS. CARLETTA: Objection. Form and
8 outside the scope.

9 A. I believe that we do, but I didn't
10 prepare by reviewing to confirm.

11 BY MR. SCARBOROUGH:

12 Q. Well, there's an -- are you also
13 familiar with the fact that there is an ARISG,
14 Account Request Information Sharing Group, that
15 exists between the Board and the Reserve Banks in
16 connection with master account requests?

17 MS. CARLETTA: Same objections.

18 A. So I'm aware of a group that consists
19 of representatives from across the Reserve Banks and
20 also includes liaisons to the Board of Governors.

21 BY MR. SCARBOROUGH:

22 Q. Okay. And through any of the
23 information-sharing vehicles that are available to
24 the Kansas City Fed, is the Kansas City Fed aware of
25 other institutions within the Reserve system that

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1 THE REPORTER: I need you to slow
2 down, please, when you're reading.

3 THE WITNESS: I'm sorry.

4 A. To clarify, Currently policies,
5 procedures and risk limits are not as developed as
6 what would be expected for an operating traditional
7 bank, most notably, in the areas of the BSA/AML and
8 OFAC compliance and IT.

9 BY MR. SCARBOROUGH:

10 Q. And did the Kansas City Fed reach
11 those conclusions in connection with the
12 pre-membership exam that was performed in the fall of
13 2022?

14 MS. CARLETTA: Objection. Form.

15 A. So looking at this draft document, I
16 assume it would have been informed by the membership,
17 the review that was conducted that fall.

18 BY MR. SCARBOROUGH:

19 Q. Did the Kansas City Fed after the
20 exclusion of that pre-membership exam in the fall of
21 2022 invite Custodia to remediate and submit
22 documentation of the remedial measures that it was
23 taking to address the gaps that were identified
24 related to BSA/AML OFAC compliance and IT issues?

25 MS. CARLETTA: Objection. Form.

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1 A. So my understanding is that after the
2 conveying the findings from that membership review,
3 Custodia asked if they could submit additional
4 information. That information was received, but it
5 was made clear that it would require additional
6 review to determine the effectiveness of the
7 remediation steps.

8 BY MR. SCARBOROUGH:

9 Q. So is it the Kansas City Fed's
10 position that it was Custodia that asked whether it
11 could resubmit versus the Kansas City Fed
12 representatives asking Custodia to address and
13 resubmit?

14 A. So there was clarification on what the
15 expectations were coming out of that review, and it's
16 my understanding that Custodia was planning to be
17 responsive to those findings but it was clarifying
18 that there was not a timeline that needed to be acted
19 on, and then as information was received that it
20 would not be able to be responded to on a flow basis
21 but instead that we would need to see substantive
22 movement and then go in and conduct follow-up review
23 to determine the effectiveness of the remediation
24 actions.

25 Q. And Custodia provided to the Kansas

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1 City Fed evidence of the remedial actions that it had
2 taken to fill the gaps that had been identified in
3 the pre-membership exam, correct?

4 MS. CARLETTA: Objection. Form.

5 A. So Custodia provided updated
6 information following that examination, but there was
7 not opportunity to review for sufficiency with
8 follow-up activity to confirm that it had
9 addressed -- in fact, addressed all of the issues
10 identified.

11 BY MR. SCARBOROUGH:

12 Q. Did the remedial information provided
13 by Custodia relating to the gaps, was that
14 information conveyed to the Board of Governors?

15 MS. CARLETTA: Objection. Form and
16 outside the scope.

17 A. I would need to -- I didn't prepare
18 with what information was conveyed to the Board in
19 the context of the membership request, so I'm...

20 BY MR. SCARBOROUGH:

21 Q. Did the Kansas City Fed take any steps
22 to review the adequacy of the information -- remedial
23 measures that Custodia took and submitted in late
24 2022?

25 MS. CARLETTA: Same objections.

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1 A. So the information that Custodia
2 submitted was reviewed, but the -- to determine the
3 adequacy or sufficiency of the response would have
4 required more than reviewing the documentation.

5 BY MR. SCARBOROUGH:

6 Q. It would have required a second
7 examination to go back in and validate what had been
8 put in place, correct?

9 MS. CARLETTA: Objection. Form.

10 A. It likely would have required
11 follow-up and time for Custodia to have implemented
12 what it proposed.

13 BY MR. SCARBOROUGH:

14 Q. Why didn't the Kansas City Fed go in
15 and do that follow-up review?

16 MS. CARLETTA: Objection. Form and
17 outside the scope.

18 A. My understanding is that Custodia was
19 frustrated with the timeline, and so once we had
20 information sufficient to make a determination on the
21 master account, we communicated that.

22 BY MR. SCARBOROUGH:

23 Q. Ma'am, Custodia was invited to submit
24 remedial evidence, did so, and is it the Kansas City
25 Fed's position that after being -- after Custodia was

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1 invited to provide that information and did so that
2 it didn't want the Kansas City Fed to come back in
3 and review the measures and the adequacy of the
4 measures that it had put in place?

5 MS. CARLETTA: Same objections.

6 A. So Custodia provided that in response
7 to the exam that was conducted for membership, and so
8 when the Board of Governors determined that they had
9 sufficient information to deny membership, that was
10 informative to our master account request.

11 BY MR. SCARBOROUGH:

12 Q. Did anybody at the Kansas City Fed
13 say, Wait, Board, you shouldn't be denying membership
14 and citing shortcoming in BSA/AML OFAC compliance or
15 IT because Custodia was invited to remediate, did so,
16 and we should go in and see if they did it?

17 MS. CARLETTA: Objection. Form and
18 outside the scope. This is about membership.

19 A. Yeah. So for the membership process,
20 I can't speak to how the Board of Governors handled
21 the processing of their review. The feedback that
22 was provided by -- or to Custodia, Custodia indicated
23 they were going to respond to, which is in Custodia's
24 purview, but the Board's determination to move
25 forward on the membership is a separate matter.

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1 individuals from multiple Reserve Banks and, again,
2 with input from staff at the Board of Governors with
3 specific subject matter expertise relative to the
4 handbook.

5 BY MR. SCARBOROUGH:

6 Q. Who at the Kansas City Fed worked on
7 or contributed to drafts of the handbook?

8 MS. CARLETTA: Objection. Form and
9 outside the scope.

10 A. So drafts of the handbook would have
11 been shared with several individuals through the
12 nontraditional account access practical workstream as
13 well as the policy workstream, and then within the
14 Reserve Bank we would have shared it with relevant
15 staff for the opportunity to provide input. I
16 believe that Nick Billman is the one that provided
17 input on behalf of the Kansas City Fed to the
18 handbook.

19 BY MR. SCARBOROUGH:

20 Q. And who at the Board provided input on
21 the handbook to the Kansas City Fed's knowledge?

22 MS. CARLETTA: Objection. Form and
23 outside the scope.

24 A. I don't know the specific individuals
25 that provided input into the handbook.

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1 BY MR. SCARBOROUGH:

2 Q. You mentioned that the nontraditional
3 account access working group as well as the practical
4 and policy workstream -- did they have input into --
5 did those groups have input into the implementation
6 handbook?

7 MS. CARLETTA: Objection. Form and
8 misstates testimony.

9 A. So the practical workstream would have
10 been engaged in helping to develop the handbook and
11 then the information would have been shared with the
12 policy workstream and the steering committee and
13 probably others beyond that. I don't know who
14 specifically took advantage of the opportunity to
15 provide feedback on the drafts.

16 BY MR. SCARBOROUGH:

17 Q. When was the final version of the
18 handbook created?

19 A. The final version of the handbook was
20 approved by the Conference of Presidents I believe at
21 the August or September meeting 2023.

22 Q. A version has been produced that's
23 dated in August of 2023. Would that coincide with
24 when it was finalized and approved?

25 MS. CARLETTA: Objection. Form.

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1 A. I assume -- so the Conference of
2 Presidents did not approve the handbook until after
3 Custodia's master account request had been
4 determined. If you have a version dated August 2023,
5 I assume that's the final version that was approved
6 by COP.

7 BY MR. SCARBOROUGH:

8 Q. Did the Kansas City Fed rely on drafts
9 of the handbook when assessing Custodia's master
10 account request?

11 MS. CARLETTA: Objection. Form.

12 A. So the Federal Reserve Bank of Kansas
13 City began the analysis of Custodia's master account
14 prior to the drafting of the handbook, but as the
15 handbook was drafted and the guidelines were
16 contemplated, we were mindful of how those were
17 evolving and used those as a reference point to
18 ensure that we were conducting a fulsome analysis of
19 the request.

20 BY MR. SCARBOROUGH:

21 Q. Now, did the handbook supplant the
22 Kansas City Fed's policies, procedure, et cetera,
23 when it came to considering and determining master
24 account requests?

25 MS. CARLETTA: Objection. Form and

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1 A. I would say that we were using the
2 handbook to ensure that our own analysis wasn't
3 omitting any material risk that had been identified
4 through that document.

5 BY MR. SCARBOROUGH:

6 Q. Was another output from the NTAAs the
7 account access guidelines?

8 MS. CARLETTA: Objection. Form.

9 A. So the account access guidelines would
10 have been issued by the Board of Governors.

11 BY MR. SCARBOROUGH:

12 Q. And they were developed through the
13 NTAA process and finalized and issued by the Board of
14 Governors, correct?

15 MS. CARLETTA: Objection. Form.

16 A. So the policy workstream under the
17 nontraditional account access steering committee had
18 engagement in thinking about the principles and the
19 guidelines.

20 BY MR. SCARBOROUGH:

21 Q. I want to make sure I heard you
22 correctly. The NTAAs did participate in the
23 development of the guidelines that were ultimately
24 issued by the Board, correct?

25 MS. CARLETTA: Objection. Form.

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1 A. The policy workstream under the
2 nontraditional account access steering committee had
3 engagement.

4 BY MR. SCARBOROUGH:

5 Q. Okay. Did the Kansas City Fed
6 determine that before it would decide Custodia's
7 master account request, it would wait for the Board's
8 account access guidelines to be finalized?

9 MS. CARLETTA: Objection. Form.

10 A. So the Kansas City Reserve Bank had
11 been conducting a review of Custodia's master account
12 request, and as we were aware the guidelines were
13 forthcoming, we would have incorporated that into our
14 analysis as well.

15 BY MR. SCARBOROUGH:

16 Q. And the Kansas City Fed didn't want to
17 make a decision before those guidelines were
18 finalized on the master account request, right?

19 MS. CARLETTA: Objection. Form.

20 A. We would want to make an informed
21 decision on the master account request, and so if
22 the Board is considering clarifying for the public
23 the risks that are considered in master account
24 requests, we would take that into account in our
25 analysis.